

# Report of the auditor-general to the Free State Legislature and the council on the Thabo Mofutsanyana District Municipality

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Thabo Mofutsanyana District Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2017, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Thabo Mofutsanyana District Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2016 (Act No. 3 of 2016) (DoRA).

### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Material uncertainty relating to going concern

6. I draw attention to the matter below. My opinion is not modified in respect of this matter:
7. Note 28 to the financial statements indicates that the municipality incurred a net loss of R2 983 568 during the year ended 30 June 2017 and, as of that date, the municipality's current liabilities exceeded its current assets by R7 421 075. These conditions, along with other matters as set forth in note 28, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern and to meet its service delivery objectives.

### Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## **Irregular expenditure**

9. As disclosed in note 32 to the financial statements, irregular expenditure of R5 136 370 (2016: R8 107 589) was incurred due to non-compliance with supply chain management (SCM) requirements and overpayments of remuneration.

## **Restatement of corresponding figures**

10. As disclosed in note 35 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2017.

## **Material impairments**

11. As disclosed in note 4 to the financial statements, receivables from exchange transactions was impaired by R2 561 287 (2016: R2 561 287).

## **Other matters**

12. I draw attention to the matter below. My opinion is not modified in respect of this matter.

## **Unaudited disclosure notes**

13. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

## **Responsibilities of the accounting officer for the financial statements**

14. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
15. In preparing the financial statements, the accounting officer is responsible for assessing the Thabo Mofutsanyana District Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the intention is to liquidate the municipality or cease operations, or there is no realistic alternative but to do so.

## **Auditor-general's responsibilities for the audit of the financial statements**

16. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

17. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

## Report on the audit of the annual performance report

### Introduction and scope

18. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected key performance areas (KPAs) presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
19. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
20. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected KPAs presented in the annual performance report of the municipality for the year ended 30 June 2017:

KPAs	Pages in the annual performance report
KPA 2 – basic service delivery and infrastructure	x – x
KPA 3 – local economic development	x – x

21. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
22. The material findings in respect of the usefulness and reliability of the selected KPAs are as follows:

### KPA 2 – basic service delivery and infrastructure

Installation of equipment: Disaster Management Centre (Phase II) by 30 June 2017

23. The source information and method of calculation for the achievement of the planned indicator was not clearly defined, as required by the Framework for Managing Programme Performance Information (FMPPI) for the following indicators.
24. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information to be used when measuring the actual achievement for the indicator, as required by the FMPPI. This was due to a lack of documented system



descriptions. I was unable to test whether the indicator was well defined by alternative means.

#### Various indicators

25. The source information for the achievement of the planned indicator was not clearly defined, as required by the Framework for Managing Programme Performance Information (FMPPI) for the following indicators.

- District water and sanitation forum
- District energy forum
- Non-food premises inspected

26. The municipality did not have an adequate record keeping system to enable reliable reporting on achievement of the indicators listed below. Sufficient appropriate audit evidence could not be provided in some instances was also unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements.

- Number of mitigation plans developed for a specific hazard
- Number of food premises inspected for compliance
- Number of food samples taken
- Number of milk samples taken
- Number of water samples taken
- Number of waste/water treatment plants inspected for compliance
- Number of childcare facilities Inspected
- Non-food premises
- Number of health care risk waste generators inspected for compliance
- Number of funeral parlours inspected for compliance
- Number waste disposal sites inspected
- Number of atmospheric emission (air quality) licensed premises inspected

### KPA 3 local economic development

#### Various indicators

The targets as determined during planning for this indicator were not specific in clearly identifying the nature and required level of performance and were not measurable, as required by the FMPPI.

Planned performance indicator	Reported performance indicator	Planned target
SMMEs trained on cutting of patterns and how to operate a computerised machine by 31 December 2016	SMMEs trained on cutting of patterns and how to operate a computerised machine by 31 December 2016	31-Dec-16

Advertising local tourism product offered by Thabo Mofutsanyana product owners on media magazine by 30 September 2016	Advertising local tourism product offered by Thabo Mofutsanyana product owners on Media Magazine by 30 September 2016	30-Sep-16
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## Other matters

27. I draw attention to the matters below.

### Achievement of planned targets

28. Refer to the annual performance report on pages x to x; x to x for information on the achievement of planned targets for the year and explanations provided for the underachievement of a significant number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs xx to xx of this report.

### Adjustment of material misstatements

29. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 2 – basic service delivery and infrastructure and KPA 3 – local economic development. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information.

## Report on the audit of compliance with legislation

### Introduction and scope

30. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
31. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

#### Expenditure management

32. An effective system of expenditure control, including procedures for the payment of funds, was not in place, as required by section 65(2)(a) of the MFMA.
33. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

#### Budgets

34. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA.

## Procurement and contract management

35. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(a) and (c). Similar non-compliance was also reported in the previous year.
36. Some of the contracts were awarded to bidders based on functionality criteria that were not stipulated in the original invitation for bidding, in contravention of preferential procurement regulation 4.

## Human resource management

37. Appointments were made in posts which were not provided for in the approved staff establishment, as required by section 66(3) of the Municipal Systems Act, .
38. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (Municipal Systems Act).

## Other information

39. The Thabo Mofutsanyana District Municipality's accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected KPAs presented in the annual performance report that have been specifically reported in the auditor's report.
40. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
41. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected KPAs presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
42. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate, however, if it is corrected this will not be necessary.

## Internal control deficiencies

43. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.



44. Management did not, in all cases, ensure that the information submitted for performance reporting was validated and recorded accurately, resulting in significant differences in the reported information.
45. Management did not accurately record transactions on an accrual basis as the municipality did not have a payables module for recording transactions as they occur. Management did not monitor full compliance with Municipal Supply Chain Management Regulations, resulting in irregular expenditure that could have been avoided.
46. The audit committee was not in place for one quarter of the financial year, due to delays in the appointment process, which resulted in lack of oversight for that period.
47. Management did not, in all instances, implement effective human resource management processes for the appointments.
48. The action plans that management had put in place did not result in major changes to the outcome of the audit, as there were still repeat findings. This is caused by lack of consequence management and oversight by the municipal leadership.

*Auditor-General*

Bloemfontein

30 November 2017



AUDITOR - GENERAL  
SOUTH AFRICA

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## **Annexure – auditor-general’s responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected key performance areas and on the municipality’s compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in the auditor’s report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
  - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Thabo Mofutsanyana District Municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.



4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

